

Liquor Control

MISSION STATEMENT

The mission of the Department of Liquor Control (DLC) is to provide efficient and quality wholesale and retail sales of beverage alcohol products while promoting moderation and responsible behavior in all phases of distribution and consumption. The department diligently promotes and obeys all laws and regulations governing beverage alcohol while generating revenue for the benefit of Montgomery County's General Fund.

BUDGET OVERVIEW

The total expenditures in the FY04 Operating Budget for the Department of Liquor Control are \$26,180,950, an increase of \$2,012,220 from the FY03 approved budget of \$24,168,730. Personnel costs comprise 62.9 percent of the budget for 233 full-time positions and 55 part-time positions for 292.2 workyears. Operating Expenses and Capital Outlay account for the remaining 37.1 percent of the FY04 budget. These projections and proposed expenditures form the basis for working capital decisions concerning the Liquor Enterprise Fund.

The following information is provided to facilitate County Council and public input for final County Executive decisions on the determination of adequate working capital within, and use of resources in, the Liquor Enterprise Fund and net proceeds to be deposited to the General Fund. Consistent with Article 2B, Section 15-207, the County Executive must make resource allocation decisions for the Fund.

PROGRAM CONTACTS

Contact Dick Duthoy of the Department of Liquor Control at 240.777.6637 or Suzanne Finkin of the Office of Management and Budget at 240.777.2781 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Warehouse Operations

This program involves management of the County's liquor warehouse and includes the purchase, receipt, and storage of over 14,000 different stock and special order items.

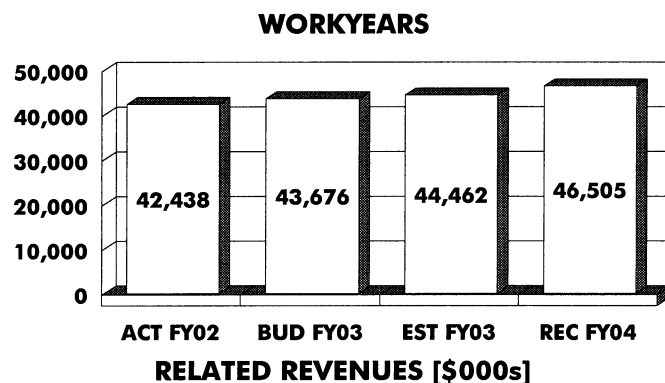
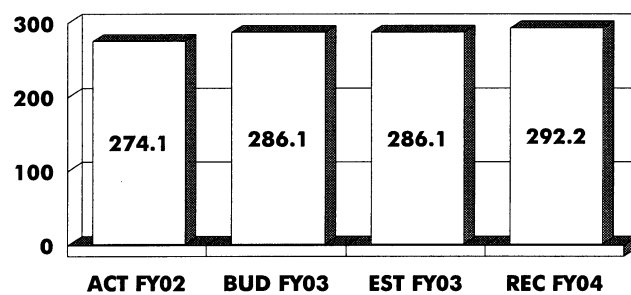
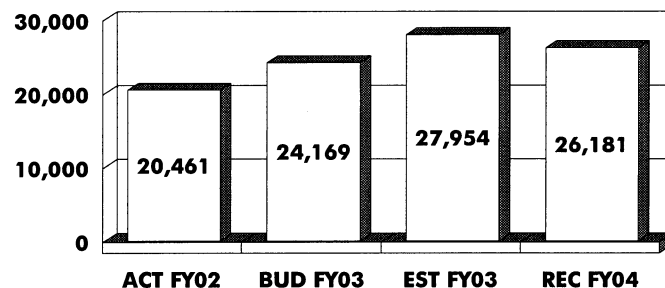
FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	4,260,980	52.8
Add: Construction manager contractor	60,000	0.0
Add: Warehouse personal computers	25,500	0.0
Decrease Cost: One-time items in FY03	-265,000	0.0
Increase Cost: Annualization of FY03 lapsed positions	6,010	0.2

Program Summary

	Expenditures	WYs
Warehouse Operations	4,201,980	53.0
Retail Sales Operations	11,894,690	125.1
Retail Contracted Operations	640,000	0.0
Delivery Operations	4,461,400	81.9
Accounting and Inventory Systems	1,823,000	18.1
Information Management	1,437,430	10.6
Fixed Costs	968,170	0.0
Administration	754,280	3.5
Totals	26,180,950	292.2

Trends



Reduce: Purchases of fixed assets	-108,500	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	222,990	0.0
FY04 CE Recommended	4,201,980	53.0

Retail Sales Operations

Under Article 2B of the Annotated Code of Maryland, the County oversees the sale of all off-site distilled spirits through County-staffed or contractor-operated liquor stores. Wine and beer are also sold at County stores.

FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	10,582,040	120.0
Increase Cost: Annualization of FY03 lapsed positions	73,110	1.7
Increase Cost: Shift differential	80,010	0.0
Add: Fringe benefits for temporary employees	239,690	0.0
Add: T-1 lines for retail stores	103,000	0.0
Add: Store office automation personal computers	42,500	0.0
Increase Cost: Retail store rent	149,600	0.0
Increase Cost: Silver Spring relocation	100,000	0.0
Enhance: Retail store security system	125,000	0.0
Reduce: Lapse	199,640	3.4
Increase Cost: Computer training	20,000	0.0
Increase Cost: Professional computer services	37,410	0.0
Decrease Cost: Consulting and security equipment	-30,000	0.0
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	172,690	0.0
FY04 CE Recommended	11,894,690	125.1

Retail Contracted Operations

Article 2B of the Annotated Code of Maryland allows the County to hire contractors to operate County liquor stores. The County must retain title to all retail stock until sold. The County Council adopted Council Resolution No. 12-452 on November 12, 1991, mandating that the County contract with qualified contractors to operate selected stores. The Kensington, Muddy Branch, and the Pike sites were selected for contracting, and in the fall of 1992, contractor staff replaced the County employees. In fall 1994, the Flower Avenue store became a contractor-operated facility. In December 2000, the Kensington store reverted to County operation. State legislation allows the Director of the Department of Liquor Control to contract the operation of a retail outlet only with those persons who had a contract in effect on January 1, 1997.

FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	675,000	0.0
Decrease Cost: Miscellaneous adjustments, including commissions	-35,000	0.0

FY04 CE Recommended	640,000	0.0
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Delivery Operations

This program includes the distribution of distilled spirits, wine, and beer to licensees and County retail stores.

FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	4,339,590	81.9
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	121,810	0.0
FY04 CE Recommended	4,461,400	81.9

Accounting and Inventory Systems

This program provides accounting services for the department. Staff performs both day-to-day functions, as well as special analysis and reports. Program staff prepare and monitor the department's budget.

FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	1,479,090	17.9
Increase Cost: Management Leadership Series adjustment	24,180	0.0
Add: Debt service for warehouse construction January to June	175,000	0.0
Increase Cost: Annualization of FY03 lapsed positions	12,120	0.2
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	132,610	0.0
FY04 CE Recommended	1,823,000	18.1

Information Management

This program provides for the operation, maintenance, and protection of all information technology initiatives of the department. These initiatives include, but are not limited to, the warehouse inventory system, the retail point-of-sale system, and numerous personal computer applications.

FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	1,148,350	9.4
Add: IT Technology expert chargeback	133,990	1.0
Add: IT Equipment	26,540	0.0
Increase Cost: Computer training	16,290	0.0
Increase Cost: Professional computer services	69,000	0.0
Enhance: Printers	50,000	0.0
Decrease Cost: One-time items in FY03	-179,110	0.0
Increase Cost: Annualization of FY03 lapsed positions	21,350	0.2
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	151,020	0.0

FY04 CE Recommended	1,437,430	10.6
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Fixed Costs

This program contains certain cost items that involve long-term funding commitments independent of the annual scope of program costs. Fixed costs included in this category are utility payments and insurance through participation in the County's Risk Management Program. Such costs are required or "fixed" based on the existence of the programs, but actual amounts will fluctuate depending upon usage, rates, and other factors.

FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	896,500	0.0
Increase Cost: Insurance and utility rates	71,670	0.0
FY04 CE Recommended	968,170	0.0

Administration

This program provides overall direction, administration, and supervision for the department.

FY04 Recommended Changes

	Expenditures	WYs
FY03 Approved	787,180	4.1
Eliminate: Facility coordinator position	-90,670	-1.0
Decrease Cost: One-time items in FY03	-25,000	0.0
Increase Cost: Annualization of FY03 lapsed positions	40,920	0.4
Miscellaneous adjustments, including negotiated compensation changes, employee benefit changes, and changes due to staff turnover	41,850	0.0
FY04 CE Recommended	754,280	3.5

BUDGET SUMMARY

	Actual FY02	Budget FY03	Estimated FY03	Recommended FY04	% Chg Bud/Rec
LIQUOR CONTROL					
EXPENDITURES					
Salaries and Wages	11,460,792	11,658,670	11,087,901	12,453,440	6.8%
Employee Benefits	2,702,232	3,312,120	3,695,967	4,036,880	21.9%
Liquor Control Personnel Costs	14,163,024	14,970,790	14,783,868	16,490,320	10.1%
Operating Expenses	6,054,447	8,278,830	11,992,637	8,906,130	7.6%
Debt Service Other	0	0	0	175,000	—
Capital Outlay	243,654	919,110	1,177,685	609,500	-33.7%
Liquor Control Expenditures	20,461,125	24,168,730	27,954,190	26,180,950	8.3%
PERSONNEL					
Full-Time	222	233	233	233	—
Part-Time	28	30	30	55	83.3%
Workyears	274.1	286.1	286.1	292.2	2.1%
REVENUES					
Operating Revenue	42,437,557	43,675,890	44,462,320	46,504,980	6.5%
Liquor Control Revenues	42,437,557	43,675,890	44,462,320	46,504,980	6.5%

FUTURE FISCAL IMPACTS

Title	CE REC. FY04	FY05	FY06	(S000's) FY07	FY08	FY09
This table is intended to present significant future fiscal impacts of the department's programs.						
LIQUOR CONTROL						
Expenditures						
FY04 Recommended	26,181	26,181	26,181	26,181	26,181	26,181
No inflation or compensation change is included in outyear projections.						
Controlled Environment Beer Warehouse - Debt Service	0	1,567	1,494	1,429	1,355	665
This is the debt service for the controlled environment beer warehouse expansion that is programed to begin in FY04.						
Elimination of One-Time Items Recommended in FY04	0	-270	-270	-270	-270	-270
Items recommended for one-time funding in FY04, including (fill in major item names based on your Competition List), will be eliminated from the base in the outyears.						
Labor Contracts	0	70	70	70	70	70
These figures represent the annualization of FY04 increments, general wage adjustments, and associated benefits. Estimated compensation (e.g., general wage adjustment and service increments) for personnel are included for FY05 and beyond.						
New Retail Store in each year, FY05 - FY09 - Sites to be Determined	0	415	755	1,095	1,435	1,775
Subtotal Expenditures	26,181	27,964	28,230	28,506	28,772	28,422

FY04-09 PUBLIC SERVICES PROGRAM: FISCAL PLAN

LIQUOR CONTROL

FISCAL PROJECTIONS	FY03 EST	FY04 REC	FY05 PROJECTION	FY06 PROJECTION	FY07 PROJECTION	FY08 PROJECTION	FY09 PROJECTION
ASSUMPTIONS							
Indirect Cost Rate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
CPI (Fiscal Year)	2.3%	2.4%	2.4%	2.3%	2.4%	2.3%	2.2%
Net Sales Increase per year	5.1%	5.3%	5.0%	5.0%	5.0%	5.0%	5.0%
BEGINNING CASH BALANCE	5,449,690	2,868,780	2,691,780	2,905,160	2,787,060	2,905,150	2,904,070
REVENUES							
Charges For Services	44,462,320	46,504,980	49,827,400	52,753,670	55,226,570	58,777,930	62,506,860
Subtotal Revenues	44,462,320	46,504,980	49,827,400	52,753,670	55,226,570	58,777,930	62,506,860
INTERFUND TRANSFERS (Net Non-CIP)	(18,984,037)	(20,501,030)	(19,971,950)	(22,114,610)	(23,393,830)	(26,001,070)	(29,268,100)
TOTAL RESOURCES	30,927,973	28,872,730	32,547,230	33,544,220	34,619,800	35,682,010	36,142,830
CIP CURRENT REVENUE APPROP. PSP OPER. BUDGET APPROP/ EXP'S.	(105,000)	0	0	(117,000)	0	0	0
Operating Budget	(27,954,190)	(26,005,950)	(26,180,950)	(26,180,950)	(26,180,950)	(26,180,950)	(26,180,950)
Debt Service: Other	0	(175,000)	(1,567,060)	(1,493,780)	(1,429,290)	(1,355,400)	(665,010)
Labor Agreement	0	0	(70,200)	(70,200)	(70,200)	(70,200)	(70,200)
One-Time Items	n/a	0	(269,540)	(269,540)	(269,540)	(269,540)	(269,540)
Increased Warehouse Utilities	n/a	0	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Add a new store annually & annualize previous stores	n/a	0	(415,000)	(755,000)	(1,095,000)	(1,435,000)	(1,775,000)
Subtotal PSP Oper Budget Approp / Exp's	(27,954,190)	(26,180,950)	(29,642,070)	(30,640,160)	(31,714,650)	(32,777,940)	(33,239,840)
TOTAL USE OF RESOURCES	(28,059,190)	(26,180,950)	(29,642,070)	(30,757,160)	(31,714,650)	(32,777,940)	(33,239,840)
YEAR END CASH BALANCE	2,868,783	2,691,780	2,905,160	2,787,060	2,905,150	2,904,070	2,902,990
END-OF-YEAR RESERVES AS A PERCENT OF RESOURCES	9.3%	9.3%	8.9%	8.3%	8.4%	8.1%	8.0%

Assumptions:

1. Fallsgrove Store added in June FY03; no new store added in FY04; one new store added FY05-09.
2. Ending cash balance = One month's Operating Expenses, one payroll, and \$1.5M for inventory.
3. Net Sales growth estimated at 5% per year
4. Debt Service assumes debt issued late FY04.

LIQUOR CONTROL

PROGRAM:

Retail Operations

PROGRAM ELEMENT:
PROGRAM MISSION:

To provide efficient, customer-friendly retail stores that compete successfully with stores in surrounding jurisdictions both in price and selection; that comply with all laws; and that return a reasonable transfer to the General Fund

COMMUNITY OUTCOMES SUPPORTED:

- Provide high quality, high value service to customers
- Foster respect for all County, State, and Federal laws
- Provide a reasonable transfer to the General Fund to assist in supporting other County services

PROGRAM MEASURES

	FY00 ACTUAL	FY01 ACTUAL	FY02 ACTUAL ^c	FY03 BUDGET	FY04 CE REC
Outcomes/Results:					
Gross profit (\$000)	16,728	17,845	19,359	19,926	21,217
Net income (\$000) ^a	4,893	6,236	7,326	6,958	7,131
General Fund transfer (\$000) ^b	4,010	5,004	7,609	6,468	6,984
Service Quality:					
Board of License Commissioners inspection violations	1	1	1	0	0
Montgomery County Police Department inspection violations	0	4	2	0	0
Percentage of customers satisfied with customer service offered	NA	NA	96.3	100	100
Percentage of customers satisfied with facility and design	NA	NA	92.9	100	100
Percentage of customers satisfied with product selection	NA	NA	90.8	100	100
Percentage of customers satisfied with product pricing	NA	NA	87.4	100	100
Efficiency:					
Gross profit/labor costs	3.3	3.3	3.2	3.1	3.0
Sales/gross profit	3.0	3.1	3.1	3.2	3.1
Sales/net income	10.3	8.9	8.2	9.1	9.4
Sales/operating expenses less depreciation	4.3	4.9	5.1	4.7	4.5
Workload/Outputs:					
Sales (\$000)	50,311	55,401	60,235	63,305	66,677
Cases transferred in (000)	609	645	686	723	750
Inputs:					
Operating expenses excluding depreciation (\$000)	11,645	11,403	11,848	13,608	14,966
Labor costs including salaries and benefits (\$000)	5,096	5,370	6,040	6,385	7,032
Workyears	115	130	117	120	125.1

Notes:

^aGAAP basis: revenues are recorded when earned; expenses are recorded when liabilities are incurred; capital outlay is excluded and depreciation is included.

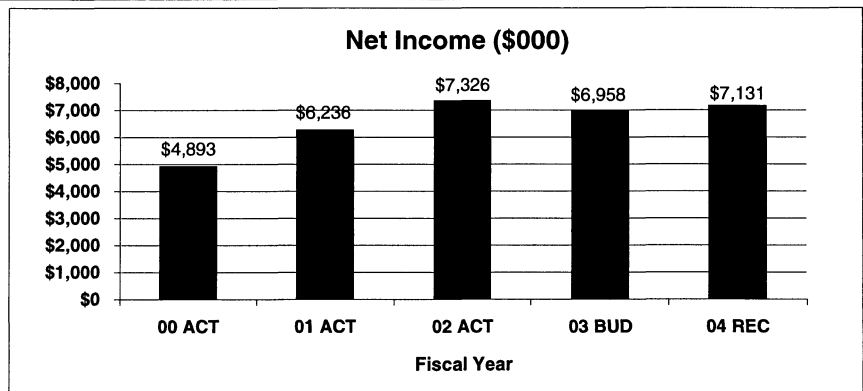
^bEstimate of total transfer attributed to retail operations.

^cFY02 Actual has been updated to correspond to the FY02 Comprehensive Annual Financial Report.

EXPLANATION:

Retail Operations consists of County-managed stores and contractor-managed stores. Under Article 2B of the Annotated Code of Maryland, the County may hire contractors to operate up to four County retail stores. The County retains title to all stock in contract stores until it is sold.

Net income from Retail Operations grew 49.7% between FY00 and FY02 and is expected to exceed \$7 million in FY04.



PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Federal, State, and County laws; Generally Accepted Accounting Principles.

LIQUOR CONTROL

PROGRAM: Wholesale Operations	PROGRAM ELEMENT:
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PROGRAM MISSION:

To ensure the availability and delivery of beer, wine, and other beverage alcohol to wholesale licensees and retail stores at reasonable prices, in good condition, and in a manner that complies with all laws and returns a reasonable transfer to the General Fund

COMMUNITY OUTCOMES SUPPORTED:

- Provide high quality, high value service to customers
- Foster respect for all County, State, and Federal laws
- Provide a reasonable transfer to the General Fund to assist in supporting other County services

PROGRAM MEASURES

	FY00 ACTUAL	FY01 ACTUAL	FY02 ACTUAL ^d	FY03 BUDGET	FY04 CE REC
Outcomes/Results:					
Gross profit (\$000)	21,285	21,297	23,074	23,750	25,288
Net income (\$000) ^a	12,909	12,994	14,179	13,468	13,803
General Fund transfer (\$000) ^b	10,580	10,427	14,726	12,518	13,517
Service Quality:					
Percentage of customers satisfied with employees' friendliness and professionalisr	NA	86	88	100	100
Percentage of customers satisfied with level of customer service provided	NA	64	65	100	100
Percentage of customers satisfied with product integrity	NA	87	87	100	100
Percentage of customers satisfied with product selection	NA	82	85	100	100
Efficiency:					
Gross profit/labor costs	3.0	2.9	2.8	2.8	2.7
Sales/gross profit	3.8	4.0	3.9	4.0	3.9
Sales/net income	6.3	6.6	6.3	7.0	7.2
Sales/operating expense less depreciation	10.2	10.8	10.5	9.8	9.4
Workload/Outputs:					
Sales (\$000)	81,478	85,275	89,817	94,395	99,423
Cases sold (000)	3,802	3,845	3,945	4,311	4,380
Inputs:					
Operating expenses excluding depreciation (\$000) ^c	8,012	7,863	8,536	9,642	10,605
Labor costs including salary and benefits (\$000)	7,154	7,223	8,123	8,586	9,458
Workyears	150	152	157	166	167.1

Notes:

^aGAAP basis: revenues are recorded when earned; expenses are recorded when liabilities are incurred; capital outlay is excluded; depreciation is included.

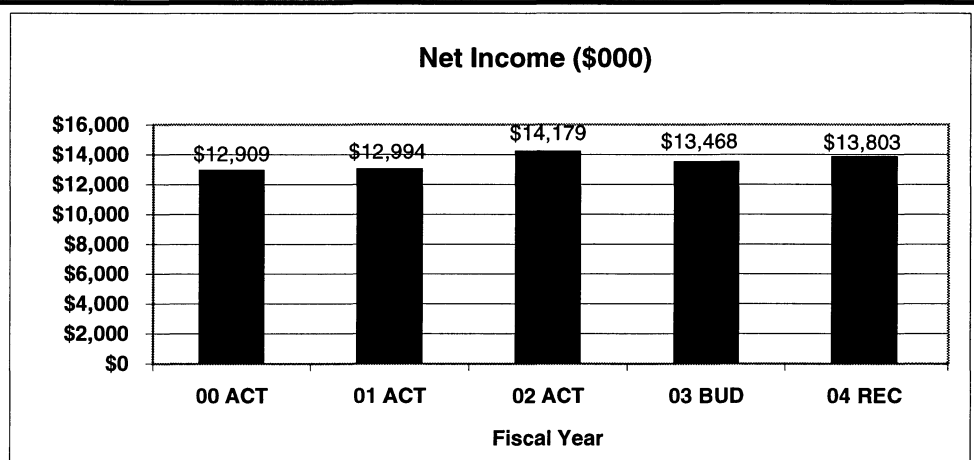
^bEstimate of earnings transfer attributed to wholesale operations.

^cOperating expenses include night loading contract.

^dFY02 has been updated to correspond to the FY02 Comprehensive Annual Financial Report.

EXPLANATION:

Wholesale Operations consists of Warehouse Operations and Delivery Operations. The Warehouse Operations portion involves management of the warehouse facility and includes receipt, storage, and loading of distilled spirits, wine, and beer. Delivery Operations includes the distribution of distilled spirits, wine, and beer to approximately 850 private retailers and 24 County stores. Between FY00 and FY02, net income from Wholesale Operations grew by 9.8%. It is expected to exceed \$13.5 million in FY04.



PROGRAM PARTNERS IN SUPPORT OF OUTCOMES: Finance Department.

MAJOR RELATED PLANS AND GUIDELINES: Federal, State, and County laws; Generally Accepted Accounting Principles.